

Message Text

CONFIDENTIAL

PAGE 01 OTTAWA 01869 102339Z

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 FEA-01 COME-00 SSO-00 NSC-05

NSCE-00 EB-03 CIAE-00 SP-02 SAM-01 DODE-00 H-01 INR-05

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC IMMEDIATE 9750

C O N F I D E N T I A L OTTAWA 1869

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, CA, US

SUBJECT: NATURAL GAS EXPORT PRICE

DEPARTMENT PASS FEA FOR ZARB AND HILL; COMMERCE FOR
DARMAN; STATE FOR KATZ

1. SUMMARY. EXTAFF HAS BRIEFED ME ON CONFIDENTIAL BASIS
REPEAT CONFIDENTIAL BASIS ON NEB RECOMMENDATIONS REGARDING
EXPORT GAS PRICES. NEB IS RECOMMENDING INCREASES WHICH WILL
RESULT IN WEIGHTED AVERAGE PRICE OF \$1.98. WASHINGTON AGENCIES
SHOULD SEND TEAM OF EXPERTS TO OTTAWA TO REVIEW CALCULATIONS
WITH NEB ON MAY 13 AND SHOULD CONSIDER PROMPT REQUEST FOR
CONSULTATIONS AT ZARB/GILLESPIE LEVEL. END SUMMARY.

2. TOWE, EXTAFF ASSISTANT UNDER SECRETARY, CALLED ME IN TODAY
TO RECEIVE COPY OF "NATIONAL ENERGY BOARD REPORT TO THE
GOVERNOR IN COUNCIL IN THE MATTER OF PRICING OF NATURAL GAS
BEING EXPORTED UNDER EXISTING LICENSES, APRIL 1976". MACNAB,
DEPUTY MINISTER OF EMR, AND EDGE, ASSOCIATE VICE-CHAIRMAN OF
NEB WERE PRESENT.

3. TOWE EMPHASIZED THAT REPORT IS STILL CONFIDENTIAL
AND MUST BE CLOSELY HELD. GOC HAS NOT REPEAT NOT MADE
CONFIDENTIAL

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PAGE 02 OTTAWA 01869 102339Z

DECISION ON NEB RECOMMENDATIONS. PURPOSE OF TODAY'S

MEETING, TOWE SAID, WAS TO GIVE USG ADVANCE LOOK AT REPORT AND INDICATION OF TIMING OF GOC DECISION ON NEB RECOMMENDATIONS. HE ADDED THAT IF USG DESIRED ADDITIONAL INFORMATION AFTER REVIEWING REPORT, GOC WOULD BE PREPARED TO HAVE FURTHER CONFIDENTIAL CONSULTATIONS WITH US.

4. MACBABB REEMPHASIZED CONFIDENTIALITY OF REPORT WHICH SO FAR IS IN HANDS OF GILLESPIE BUT NO OTHER CABINET MINISTER HAS NOT BEEN SEEN BY PROVINCIAL AUTHORITIES. HE NOTED THAT REPORT WOULD CREATE SOME INTERESTING DISCUSSIONS WITHIN CANADA PARTICULARLY SINCE RECOMMENDATION IS FOR LOWER EXPORT PRICE FOR B.C. GAS THAN FOR ALBERTA GAS. HE SAID GOC WANTS TO RESOLVE OIL PRICE AND DOMESTIC GAS PRICE ISSUES WITH PROVINCES BEFORE FOCUSING ON EXPORT GAS PRICE. THEREFORE, IT WILL PROBABLY BE "AT LEAST TWO WEEKS" BEFORE NEB REPORT GOES TO CABINET FOR CONSIDERATION AND DECISION. IN RESPONSE TO QUESTION, MACBANN SAID THAT GOC IS ATTEMPTING TO SEPARATE ISSUES OF DOMESTIC AND EXPORT GAS PRICES BUT THAT THIS MAY BE DIFFICULT BECAUSE OBVIOUSLY PRODUCING PROVINCES WILL WISH TO LOOK AT WHOLE PACKAGE.

5. EDGE THEN REVIEWED CONTENTS OF REPORT AND RECOMMENDATIONS. UPSHOT IS THAT NEB IS RECOMMENDING FOUR DIFFERENT BORDER PRICES (\$1.60, \$1.89, \$2.00 AND \$2.10) VARYING WITH THE LICENSE HOLDERS AND MARKET AREA. WEIGHTED AVERAGE PRICE RECOMMENDED "FOR MID-1976" IS \$1.98.

6. AFTER QUESTIONING GOC OFFICIALS ON SOME DETAILS OF NEB REPORT, I INFORMED THEM THAT I WAS UNDER INSTRUCTIONS TO STATE USG OPPOSITION TO AN INCREASE IN THE EXPORT GAS PRICE TO \$2.00/MCF. MY INSTRUCTIONS HAD BEEN STIMULATED BY B.C. ENERGY COMMISSION'S PROPOSAL FOR A \$2.00 PRICE BUT IT IS NOW EVIDENT THAT NEB IS THINKING IN SAME TERMS. WHILE USG ADMINISTRATION WOULD NOT NECESSARILY OPPOSE ANY INCREASE IN GAS PRICES, A 25 PERCENT INCREASE WOULD RESULT IN FURTHER DISCRIMINATION AGAINST U.S. CONSUMERS. (MACNABB HAD SUGGESTED THAT

CONFIDENTIAL

PAGE 03 OTTAWA 01869 102339Z

TORONTO CITY GATE PRICE MIGHT GO UP FROM \$1.25 TO \$1.50 BUT ADMITTED THIS WAS PROPORTIONATELY LESS THAN EXPORT PRICE INCREASE RECOMMENDED BY NEB) AND HAVE A SERIOUSLY ADVERSE IMPACT ON THESE CONSUMERS WHO PROVIDE A CAPTIVE MARKET DEVELOPED AT A TIME WHEN CANADA WAS ANXIOUS TO INCREASE ITS GAS EXPORTS. I NOTED THAT USG HAD DONE SOME STUDIES USING METHODOLOGY PARALLEL TO THAT OF NEB AND HAD CONCLUDED THAT THE BORDER VALUE OF CANADIAN GAS ON AN

EQUIVALENT COMMODITY VALUE BASIS IS AT OR LOWER THAN THE CURRENT \$1.60 FOR MOST OF THE 12 STATES USING CANADIAN GAS AND THAT WE DOUBTED THAT AN INCREASE TO \$2.00 CAN BE JUSTIFIED AT THIS TIME IN COMPARISON TO THE COST OF ALTERNATIVE FUELS IN THE U.S. FINALLY, I SAID THAT THE INTRODUCTION OF NEW REGIONAL DISPARITIES IN THE STATES COULD ONLY SHARPEN POLITICAL CONFLICTS OVER ENERGY POLICY AND MAKE IT MORE DIFFICULT FOR THE U.S. TO ACHIEVE A PHASED INCREASE IN GAS PRICES.

7. AFTER FURTHER DISCUSSION OF NEB'S CALCULATIONS, IT WAS AGREED THAT IT WOULD BE USEFUL FOR USG EXPERTS TO SIT DOWN WITH NEB OFFICIALS TO REVIEW WORK SHEETS AND TRY TO DISCOVER WHY RESULTS OF RESPECTIVE ANALYSES DIFFERED SO MUCH. EDGE SAID NEB WOULD BE READY FOR SUCH A MEETING IN OTTAWA BY THURSDAY, MAY 13.

8. REQUEST THAT WASHINGTON AGENCIES PUT TOGETHER TEAM WHICH CAN BE IN OTTAWA FOR REVIEW OF DATA BEGINNING MORNING OF MAY 13.

9. I ALSO BELIEVE THAT, IF USG VIEWS ARE TO BE TAKEN SERIOUSLY INTO ACCOUNT BY GOC CABINET WE MUST MAKE OUR CONCERNS KNOWN PROMPTLY AT HIGHER POLITICAL LEVEL AND ACCORDINGLY RECOMMEND THAT WASHINGTON AGENCIES CONSIDER FEASIBILITY OF SCHEDULING BROADER REVIEW OF ENERGY COOPERATION GILLESPIE SUGGESTED (SEE OTTAWA 1847) SOMETIME NEXT WEEK. CANADIAN WILL BRING IN THEIR BUDGET ON MAY 25 AND THAT GIVES US NO MORE THAN TWO WEEKS TO MAKE OUR VIEWS FELT.

10. REQUEST GUIDANCE ASAP.

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PAGE 04 OTTAWA 01869 102339Z

QQM PERTINENT TABLES FROM NEB REPORT BEING SENT SEPTTEL.
ENDERS

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